FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 92, No. 10

Dear Client: Washington, May 7, 2021

Finding workers, hints of rising inflation and eventually interest rates are key issues for ag sector officials, according to recent conversations.

FEDERAL RESERVE

The Fed is missing the mark on wage inflation, private sector contacts report. Fed Chairman Jay Powell continues to insist wage pressures are limited.

But there are warning signs the Fed may be missing. Restaurants and other services jobs are offering signing bonuses and higher wages to attract workers. Some restaurants are unable to reopen at full capacity given worker shortages.

The ag industry is telling us the same thing. Instead of the normal abundance of applicants for every job opening, they are now getting just a couple of people interested… if any at all.

A big reason for the hard-to-get workers: Extra unemployment aid. That expires in early September, but in our poll of congressional contacts, every one of them said Democratic leaders will push for another aid extension. If so, some analysts say they will rein in upbeat forecasts for U.S. GDP growth in the third and fourth quarters.

End-arounds the Labor Shortage

- **Refugee allotment into the U.S.** was increased by President Joe Biden... to 62,500 from 15,000. Goal is to further boost number to 125,000 for fiscal year 2022, which begins Oct. 1.
- **U.S. meatpackers praised the refugee allotment boost...** the industry uses a lot of refugees.
- **Immigration reform legislation** continues to be discussed in Congress, including more H2A program workers for the ag sector, but differences remain on sensitive topics.
- **Use of “ag robots” and drones** continue to accelerate in the ag and food industry, with both of the high-tech tools becoming better at doing tasks previously performed by humans. And, costs are coming down.

Source: *Ag Letter* editors

What about interest rates? The Fed keeps saying rates will not have to be increased until at least 2023, but a growing number of private analysts expect an initial rate boost sometime in 2022.

The Fed has acknowledged the strong U.S. economic recovery but says it’s far from complete. The current signals are likely to dissuade the Fed from maintaining its continued aggressive easy monetary policy.

Surveys do not yet detect any upward pressure on the wage structure. Without wage acceleration, inflation will not get embedded into the economy and thus the Fed can hold off boosting rates to temper inflation that just may not be transitory, a word Fed Chair Powell keep using.

But it is questionable if this can continue amid rising prices for food and energy and other products (lumber, etc.) and as a jobs mismatch becomes more evident.

Watch the bond market. Dr. Vince Malanga, president of LaSalle Economics, says: “The ever-watchful bond market’s move toward a higher yield level and a more recent plateau was prescient in seeing the uptick in inflation and growth.” Benchmark 10-year U.S. Treasury yields have eased a bit from the 14-month high in late March but are trending higher. Malanga concludes, “One thing is certain, the bond market will provide the answer to whether inflation is indeed transitory before policymakers.”

But also watch when the Fed starts tapering its purchases of Treasuries to keep long-term rates low. That will come before actual interest rate hikes begin.

The Agriculture Letter is published biweekly for $139/one year, $264/two years, $396/three years (U.S.) by Farm Journal Media, Ag Letter Editors Jim Wiesemeyer & Meghan Vick, 402 1/2 Main St., Cedar Falls, Iowa, 50613-9985. ISSN 2181-4217 (print), ISSN 2381-4225. POSTMASTER: Send address changes to The Agriculture Letter, 820 James St., Webster City, IA 50595.

Subscription inquiries: 888-752-2047 or AgricultureLetter@farmjournal.com
Editorial information: Tel., 800-772-0023; Fax, 319-277-7982;
E-mail: aglettereditors@farmjournal.com; or website, AgricultureLetter.com

COVID VACCINES

Biden announces rural vaccination plans. The White House is planning to ship new allocations of vaccines to rural health clinics starting next week, Biden said. "We know that vaccination rates are lower in rural areas and that's why we are going to get vaccines closer than ever to rural residents," he said.

The rate of vaccination in rural areas is notably lagging urban regions, according to analysis from the *Daily Yonder,* a news site focused on rural communities. The administration will use Covid relief money to provide more funds to rural hospitals and clinics. It will also rely on FEMA to help. U.S. Surgeon General Vivek Murthy said FEMA will try creative efforts to provide vaccines in hard-to-reach areas, such as offering shots in church parking lots, delivering the vaccines to homebound seniors or trying other measures suggested by local communities.

RFS

Government Accountability Office (GAO) embarking on extensive RFS examination. The Environmental Protection Agency (EPA) on May 5 published a notice in the Federal Register that it is turning over information to the GAO on the Renewable Fuel Standard (RFS), including data that could be considered confidential business information relative to small refinery exemptions (SREs). EPA said they will disclose to GAO "all documents, information, and data related to all small refinery exemption petitions received by EPA from the start of the RFS program through the present."

EPA said GAO will either return the information to EPA or destroy it when the study is done, and the agency noted there are rules preventing "any further disclosure" of such information. That suggests GAO is embarking on a major exam of the RFS and SREs, in particular, most likely coming at the request of a lawmaker or lawmakers. It is not clear when the study will be completed, but this could be a key report on what has been a dicey subject in the biofuels arena.

PORK TRADE

Philippines tempers pork import plans. The Philippines reduced the volume of pork imports it plans to make this year to 254,210 metric tons (MT), down from an original mark of 404,000 MT. Also, it raised tariffs on imports... a compromise with Philippines lawmakers who argued the plan put local hog farmers at risk. The gov't had sought to boost imports as the country's hog herd has been reduced by African swine fever (ASF); pork imports were aimed at quelling domestic pork prices.

PANAMA CANAL

Panama Canal concerns raised by DHS Chief Mayorkas. The U.S. needs to partner with Panama to make sure that the flow of goods through the critical waterway is not interrupted again, Department of Homeland Security (DHS) Secretary Alejandro Mayorkas said at a policy conference held by the Council of Americas. The recent shipping disruptions from a ship blocking the Suez Canal has put the matter in focus. "Like all critical infrastructure, the canal requires cyber-infrastructure security to facilitate the flow of global commerce," Mayorkas said. He called for the U.S. to "partner closely with Panama" to make sure that the canal is safe from "foreign adversaries." Protecting U.S. supply chains from "malign foreign influences" and criminal networks are key, he argued, and can be accomplished by expanding programs that link supply chains from the point of production to customer delivery.

PORK INDUSTRY

Slower line speeds for pork. USDA notified pork processing plants they cannot operate slaughter lines faster than 1,106 hogs per hour amid a court ruling that USDA needed to assess the impact on worker safety from allowing high-speed lines.

Seaboard Foods says it needs more time to slow slaughter speeds and is pushing for a 10.5-month delay to a federal court decision that would force it to slow hog slaughter at its Guymon, Oklahoma facility. Workers say the faster line speeds have increased injuries and the United Food and Commercial Workers Union successfully challenged a Trump administration policy that allowed plants to run slaughter lines as fast as they want so long as they prevent fecal contamination and minimize bacteria. The U.S. District Court in Minnesota invalidated the rule on March 31, but stayed the decision for 90 days.

END OF AN ERA

CME Group is closing most of its trading pits in Chicago. Exchange operator CME Group will permanently close most of its open-outcry trading pits in Chicago, ending one of the world's last vestiges of open outcry floor trading.

The closing includes trading of agricultural commodities like soybeans, wheat, cattle and hogs, as well as the trading of options on the S&P 500.

The only part of CME's trading floor to remain open is its Eurodollar options pit... the interest-rate contracts still represent one of the exchange's largest marketplaces. While many of the CME's pits were already replaced by electronic trading, the remaining ones were temporarily closed in March 2020 to prevent the spread of Covid-19.

Perspective: Options pits and floor trading for agricultural commodities stretch back 173 years in Chicago.

London Metal Exchange is mulling permanently closing its red sofa trading ring, which is the last open outcry floor left in Europe.

MARKETS

Corn: Planting of U.S. corn remains rapid, with progress running about five days ahead of the norm as of May 2. Markets are zeroed in on planting and moisture conditions given dryness woes for Brazil's safrinha corn crop and the resulting slide in production estimates. Volatility will remain elevated.

Soybeans: Planting of beans is also running ahead of schedule as early May arrived with open conditions in much of the Corn Belt. Attention on relatively tight supplies is keeping crush and export news at the forefront.

Wheat: U.S. wheat is still struggling to attract business on the global market. Russia's export tax actions have not steered a great deal of business our way. Spring wheat planting has been active, but dry conditions in the Northern Plains into Canada are keeping weather worries a factor, providing some price support. The Wheat Quality Council Tour will kick off May 18.

Rice: Rough rice futures rallied into early May on general commodity price strength. Demand for U.S. rice remains sluggish on the global market, with many reducing their outlook for exports.

Cotton: Global demand remains an important market factor. The recently announced additional cotton import quota in China that will be made available to private importers with a sliding scale relative to import duties will hopefully spur some additional demand as China tries to replace cotton from Xinjiang or its garment/textile export industries.

Dairy: Feed costs have moved to their highest level in seven years, keeping payments triggered under the Dairy Margin Coverage (DMC) program. There has also been improved food service and retail dairy sales, with volumes moving above 2019 levels.

Hogs/pork: June, July and August lean hog futures contracts hold a premium to the CME lean hog index, with cash prices charging higher over the past week. Slaughter is a dramatic 60% above the year-ago period when Covid was shuttering hog slaughter facilities. Uncertainties remain on the export front, keeping volatility in play.

Cattle/beef: Live cattle futures have been trading at a discount to the cash market, with ample market-ready supplies giving packers little incentive to share record profits. Boxed beef values are also at record levels. Cattle futures are trying to put in cycle lows, and there have been some indications packer long hedging is underway.

Broilers: Wing prices have continued to fly higher, moving above $3 as May arrived. The ongoing chicken sandwich "wars" also are keeping prices supported for other parts of the bird. Broiler operators appear to be responding, with the broiler egg layer flock on April 1 above year-ago and up 7% from 2019 levels.

Transportation: Both railroads and barges continue to report strong activity in terms of grain transportation. Class 1 rail loadings were up nearly 18% in late April and cumulative grain loadings are up nearly 24% from year-ago marks. Similarly, cumulative barge loadings are up 45% and remain well above the five-year average.

AG TRADE The value of U.S. ag exports shot higher in March along with imports. Ag exports shot from $13.87 billion in February to $15.34 billion in March. But the big rise in exports was nearly equaled by the sharp boost imports, which hit a record $14.56 bil. in March... up sharply from $11.86 bil. in February.

Result was a trade surplus of just $774 mil., well below February's $2.0 bil. surplus and the first surplus under $2 bil. for fiscal year (FY) 2021.

U.S. ag exports have been valued at $15 bil. or more five out of the six months so far in FY 2021. This brings cumulative FY 2021 ag exports to $92.42 bil. against imports that total $76.87 bil., for a cumulative surplus of $15.55 billion. USDA in February forecast U.S. ag exports at a record $157.0 bil. against imports at $137.5 bil., which would also be a record. USDA will update its forecast for U.S. ag exports on May 26.

Historical patterns are for U.S. ag import values to increase in the next few months, while export values typically soften. In FY 2020, strong imports resulted in seven monthly trade deficits for agriculture and a trade deficit for all of FY 2020 of $3.41 billion. Those figures are in part a reflection of the broader definition of agricultural products adopted by USDA. To shift into negative territory on ag trade for all of FY 2021, there would have to be a string of sizable monthly deficits in coming months to erase the large surplus currently on the books.

CLIMATE CHANGE Sen. John Boozman (R-Ark.) opposes any USDA-administered carbon bank. As USDA nears release of a strategy for tackling climate change, Boozman, the top Republican on the Senate Ag Committee, again stressed his opposition to a USDA-run carbon bank. "The reality is that the [USDA] secretary does not have the authority to create and operate a 'carbon bank' as proposed by the Biden administration," said Boozman in a statement that followed general recommendations by the Food and Agriculture Climate Alliance (FACA) for using a carbon bank to test ways of rewarding farmers for conservation practices.

Farm Bureau still not convinced. One of the FACA members is the American Farm Bureau Federation (AFBF). Its leader, Zippy Duvall, indicated when FACA announced its recommendations that he was still not totally on board with the concepts. Questions also remain as to whether USDA has the authority under the Commodity Credit Corporation (CCC) to create and/or operate a carbon bank. Ag Secretary Tom Vilsack this week indicated Congressional approval would be needed.

Many questions regarding the ag sector's role in climate change have surfaced, with very few answers. These include how carbon credits will be measured and priced. There also are no standards yet in place for any such program. Therefore, many are telling farmers and ranchers to be cautious, but to continue to educate themselves on the topic that many now say is more like the "Wild West" than any program from which specific or lasting conclusions can be drawn. Industry contacts say watch specialty crop producers regarding carbon credit developments.

General suggestions from many ag stakeholders include: (1) ensure conservation programs (CSP, CRP, EQIP, etc.) are given priority status; (2) work with crop insurance agents and technical advisers; (3) reward early adopters or pioneers who have previously used conservation or other best practices and who may not qualify for carbon credits on measures already taken.

Regarding crop insurance, three industry groups cautioned USDA to make sure the insurance program remains actuarially sound and that the current programs reward farmers for practices that make crops more resilient.

Best regards,

The Ag Letter Editors

May 7, 2021

THE AGRICULTURE LETTER EDITORS